Pearson BTEC Level 5 Higher National Diploma (HND) in Business Pearson BTEC Level 4 Higher National Certificate (HNC) in Business

**Unit 10 Assignment: Financial Accounting**

# Introduction

In this unit you will be introduced to essential financial accounting principles and techniques which will enable you to record and prepare basic financial accounts. You will learn how to prepare accounts for sole traders, partnerships and limited companies.

This unit will enable you to contribute effectively to the accountancy function of an organisation or record and prepare basic financial accounts for your own business.

# Assignment Submission Format

Submission will be an information booklet and a demonstration of accounting which covers the learning outcomes for the unit.

# Learning Outcomes (LO)

**LO1** Record business transactions using double entry book-keeping, and be able to extract a trial balance.

**LO2** Prepare final accounts for sole-traders, partnerships and limited companies in accordance with appropriate principles, conventions and standards.

**LO3**  Perform bank reconciliations to ensure company and bank records are correct.

**LO4** Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts

# Assignment Brief

*Scenario*

You are an accountant and have been asked to prepare an information booklet for junior trainee accountants as part of the training programme for these employees.

In addition you have been asked to prepare accounts as part of the training programme to demonstrate accounting techniques to the junior trainee accountants.

# Assignment Guidance –Information Booklet

The information booklet should include details of accountancy regulations, rules, principles and conventions.

The booklet should include an introduction to the scenario and include an explanation of financial accounting and an explanation of the regulations that relate to financial accounting.

The information booklet should include the following:

* An explanation of double entry book-keeping and a trial balance, and the regulations for these.
* The difference between financial reports and financial statements.
* An explanation of accounts for sole traders, partnerships and a limited company and identify the differences.
* An explanation of the reconciliation process and the tools and techniques used to check the general ledger accounts. In addition you should explain variances and the importance of correctly entered figures.
* An explanation of the different control accounts and what these are used for in financial accounting.
* A description of the process to reconcile control accounts and explain why reconciliation is required.
* An explanation of the purpose of suspense accounts and how they differ from control accounts.

You need to demonstrate and provided examples of calculations, using the case studies below to generate evidence to include worked examples in your information booklet.

# Case study 1

ABC is a new business that started on 1 July, the business pays £3,000 into the business bank account.

1. What is the dual effect of this transaction?
2. What is the accounting equation after this transaction?

# Case study 2

XYZ business on started on the 1 January by paying £40,000 into a business bank account. The business then spent £600 on a second-hand van paid by debit card, £2,000 on purchases of inventory for cash, took £600 cash for his own use and bought goods on credit worth £500.

1. What are the two effects of each of these transactions?
2. What would the accounting equation look like after each of these transactions?

# Case study 3

1. XYZ business then spends £2,000 on purchases of goods for cash. The bank balance goes down by £2,000 but the business has other assets, inventory of £3,000. Inventory is a short-term asset as it is due to be sold and is known as a current asset. The assets of the business are now: £600 (Van) Inventory

£3,000 Bank (£39,400 – £1,000) = £38,400

1. Accounting equation: Assets – Liabilities = Capital £40,000 – £0 = £40,000
2. XYZ business took £600 of cash out of the business. The bank balance has decreased by £600 and capital has also decreased as the owner has taken money out of the business – this is known as drawings. The owner is a completely separate entity from the business itself and if he takes drawings then this means that the business owes him less.
3. The assets of the business are now: £600 (Van) £3000 Inventory. The capital of the business is now £ (40,000 – 600) = £39,400.
4. Accounting equation: Assets – Liabilities = Capital £39,400 – £0 = £39,400
5. Using the information above enter the Debits and Credits in the correct columns

|  |  |  |  |
| --- | --- | --- | --- |
| **Debits**  | **Credits**  | **Assets**  | **Liability**  |
|   |   |   |   |
|   |   |   |   |
|   |   |   |   |

# Case study 4

XYZ business started on 1 January and made the following transactions.

1. Paid £30,000 into a business bank account.
2. Spent £600 on a second-hand van.
3. Paid £2,000 on purchases of inventory.
4. Took £60 cash for his own personal use.
5. On 5 January bought goods for cash costing £700.
6. Made sales for cash of £2,500.
7. On 15 January paid £400 of rent.

**Task 1**: Identify how the debit and credit entries for each transaction are determined.

**Task 2:** Detail the transactions into the relevant ledger accounts.

**Task 3:** Use the figures identified above create a trail balance in the table below.

#  Debit Credit

**£ £** Sales

Opening inventory

Purchases

Rent

Car

Receivables

Payables

**Task 4**: XYZ Business at 31 December has the following balance.

£ 47,140 Sales

£ 26,500 Purchases

£7,640 Receivables

£4,320 Payables

£ 9,430 Expenses

£5,000 Loan

£7,300 Plant and machinery

£2,650 Van at cost

£7,500 Drawings

£ 6,450 Rent

£1,560 Insurance

£2,570 Overdraft

£10,000 Capital

Prepare XYZ Businesses trial balance as at 31 December.

**Question:** What is the reason for extracting a trial balance?

# Case study 4

**Double entry book-keeping into a trail balance.**

Given below is a bank account ledger account for the month of March. You are required to ‘balance off’ the ledger account and put the information into a trail balance.

**Bank**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date  |   | £  | Date  |   | £  |
| 1 Mar  | Capital  | 12,000  | 3 Mar  | Purchases  | 3.000  |
| 7 Mar  | Sales  | 5,000  | 15 Mar  | Non-current asset  | 2,400  |

19 Mar Sales 20 Mar Purchases 5,300

2,000

3,000

22,000

9

,300

22 Mar Sales 24 Mar Rent 1,000

 28 Mar Drawings 1,000

 31 Mar Balance C/f 8,300

 22,000

1 Apr Balance b/d

**Question:** What is the purpose of double entry book-keeping?

# Trail Balance

 Dr Cr

 £ £

Bank

Capital

Van

Drawings

Sales

Rent

Word count guideline: 2,000 - 2,500 words

The information document should be written in a concise, formal, business style with the use of headings, paragraphs and subsections.

## Assignment Guidance –Accounting

The demonstration of accounting should include preparation of final accounts, bank reconciliation and control accounts.

1. Record business transactions using double entry book-keeping and extract a trial balance using the figures provided.
2. Using the trial balance provided prepare final accounts for a sole trader, partnership and limited company.

The final accounts should include a profit and loss account and a balance sheet.

1. Using the figures provided present the bank reconciliation accounts (please note: that you must display the figures in the correct format).
2. Using the figures provided reconcile a control account.

The figures provided in the case study need to be used to develop examples to meet the Learning Outcomes of this assignment.

**Learning Outcomes and Assessment Criteria**

**Pass Merit Distinction**

**LO1** Record business transactions using double entry book-keeping, and be able to extract a trial balance

**P1** Apply the double entry book-keeping system of debits and credits. Record sales and purchases transactions in a general ledger.

**P2** Produce a trial balance applying the use of the balance off rule to complete the ledger.

**M1** Analyse transactions to show the progression from a previous trial balance to the next one using double entry bookkeeping.

**D1** Apply trial balance figures to show which statement of financial accounts they will end up in.

**LO2** Prepare final accounts for sole-traders, partnerships and limited companies in accordance with appropriate principles, conventions and standards **P3** Prepare final accounts from given trial balance.

**P4** Produce final accounts for a range of examples that include sole-traders, partnerships and limited companies.

**M2** Make adjustments to balances of sum accounts for example, accruals, depreciation and prepayments before preparing the final accounts.

**D2** Compare the essential features of each financial account statement to analyse the differences between them in terms purpose, structure and content.

**LO3** Perform bank reconciliations to ensure company and bank records are correct

**P5** Apply the bank reconciliation process to prepare a number of bank reconciliations.

**M3** Apply the reconciliation process demonstrating the use of deposit in transit, outstanding checks and Not Sufficient Funds (NSF) check.

**D3** Prepare accurate bank reconciliations that apply appropriate tools and techniques to check general accounts and balance sheets.

**Pass Merit Distinction**

**LO4** Reconcile control accounts and shift recorded transactions from the suspense accounts to the right accounts

**P6** Explain the process taken to reconcile control accounts and clear suspense accounts using given account examples.

**M4** Demonstrate understanding of the different types of accounts and how and why they are reconciled.

**D4** Produce accurate accounts that have been reconciled applying the appropriate method